ZHONG HUA INTERNATIONAL HOLDINGS LIMITED
中華國際控股有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 1064)

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

This announcement is made pursuant to Rules 13.49(1) and (2) of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The board of directors (the "Directors") of Zhong Hua International Holdings Limited (the "Company") would like to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2022 (the "Annual Results"), together with the comparative figures and the relevant explanatory notes, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2022

	Notes	**2022** **HK$'000**	2021 *HK$'000*
REVENUE	2	**30,283**	57,670
Cost of sales		**–**	(5,628)
Gross profit		**30,283**	52,042
Other income and gains		**786**	786
Changes in fair value of investment properties		**50,692**	33,638
Administrative expenses		**(25,302)**	(25,693)
Finance costs	3	**(1,509)**	(1,664)
PROFIT BEFORE TAX	4	**54,950**	59,109
Income tax expense	5	**(20,900)**	(28,128)
PROFIT FOR THE YEAR		**34,050**	30,981

	Notes	**2022** *HK$'000*	2021 *HK$'000*
Attributable to:			
Ordinary equity holders of the Company		**3,273**	6,811
Non-controlling interests		**30,777**	24,170
		34,050	30,981
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
– Basic		**HK cents 0.46**	HK cents 0.95
– Diluted		**HK cents 0.46**	HK cents 0.95

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2022

	2022	2021
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**34,050**	30,981
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) that may be reclassified to the income statement in subsequent periods:		
Exchange differences on translation of foreign operations	**(242,675)**	80,203
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR	**(208,625)**	111,184
Attributable to:		
Ordinary equity holders of the Company	**(69,972)**	31,202
Non-controlling interests	**(138,653)**	79,982
	(208,625)	111,184

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,460**	4,013
Right-of-use asset		**–**	1,419
Investment properties		**4,274,112**	4,561,214
Total non-current assets		**4,277,572**	4,566,646
CURRENT ASSETS			
Properties held for sale		**29,315**	32,262
Trade receivables	8	**12,334**	21,611
Prepayments, deposits and other receivables		**11,864**	13,368
Cash and bank balances		**84,874**	93,204
Total current assets		**138,387**	160,445
CURRENT LIABILITIES			
Trade payables	9	**(2,075)**	(2,121)
Other payables and accruals		**(56,719)**	(70,101)
Tax payable		**(78,559)**	(79,521)
Lease liability		**–**	(1,303)
Total current liabilities		**(137,353)**	(153,046)
NET CURRENT ASSETS		**1,034**	7,399
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,278,606**	4,574,045
NON-CURRENT LIABILITIES			
Loan from a director		**(72,297)**	(78,056)
Due to a director		**(113,915)**	(149,036)
Long term other payables		**(146,003)**	(140,763)
Deferred tax liabilities		**(924,868)**	(982,814)
Total non-current liabilities		**(1,257,083)**	(1,350,669)
Net assets		**3,021,523**	3,223,376
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**17,840**	17,840
Reserves		**856,130**	919,330
		873,970	937,170
Non-controlling interests		**2,147,553**	2,286,206
Total equity		**3,021,523**	3,223,376

Notes:

1.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand dollars except when otherwise indicated.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements:

Amendments to HKFRS 3	*Reference to the Conceptual Framework*
Amendments to HKAS 16	*Property, Plant and Equipment Proceeds before intended Use*
Amendments to HKAS 37	*Onorous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and the impact of the revised HKFRSs are described below:

(a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the Conceptual Framework for Financial Reporting (the "Conceptual Framework") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-lnt 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 37 clarity that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include bath the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

HKFRS 9 Financial Instruments clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

2. REVENUE AND OPERATING SEGMENT INFORMATION

Revenue

An analysis of revenue is as follows:

	2022	2021
	HK$'000	*HK$'000*
Revenue from other sources		
Income from letting of investment properties	**30,283**	30,209
Revenue from contracts with customers		
Sale of properties	**–**	27,461
	30,283	57,670

Operating segment information

For management purposes, the Group is organised into business units based on their services and has two reportable operating segments as follows:

(a) the property investment and development segment, which invests in properties for generating potential income from letting and sells properties located in Mainland China; and

(b) the corporate and others segment, which provides management services to group companies.

The management of the Group monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from operations. The adjusted profit/(loss) before tax from operations is measured consistently with the Group's profit before tax from operations except that other income and gains and finance costs are excluded from such measurement. Segment assets exclude cash and bank balances as it is managed on a group basis. Segment liabilities exclude tax payable, deferred tax liabilities and a loan from a director as these liabilities are managed on a group basis.

	Property investment and development		Corporate and others		Total	
	2022	2021	**2022**	2021	**2022**	2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue						
Sales to external customers	**30,283**	57,670	**–**	–	**30,283**	57,670
Segment results	**71,161**	73,479	**(15,488)**	(13,492)	**55,673**	59,987
Other income and gains					**786**	786
Finance costs					**(1,509)**	(1,664)
Profit before tax					**54,950**	59,109
Income tax expense					**(20,900)**	(28,128)
Profit for the year					**34,050**	30,981
Segment assets	**4,331,007**	4,631,859	**78**	2,028	**4,331,085**	4,633,887
Unallocated assets					**84,874**	93,204
Total assets					**4,415,959**	4,727,091
Segment liabilities	**311,320**	356,504	**7,392**	6,820	**318,712**	363,324
Unallocated liabilities					**1,075,724**	1,140,391
Total liabilities					**1,394,436**	1,503,715
Other segment information						
Depreciation of property, plant and equipment	**261**	273	**–**	–	**261**	273
Depreciation of right-of-use asset	**–**	–	**1,419**	1,893	**1,419**	1,893
Changes in fair value of investment properties	**(50,692)**	(33,638)	**–**	–	**(50,692)**	(33,638)

Geographical information

Revenues are attributed to the segments based on the locations of the customers, and assets are attributed to the segments based on the locations of the assets. No geographical information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

Information about major customers

Revenue from one (2021: two) customer which accounted for revenue exceeding 10% of Group's total revenue. Revenue from Customer A and Customer B accounted for HK$30,283,000 (2021: HK$30,209,000) and Nil (2021: HK$27,461,000), respectively, during the year ended 31 December 2022.

3. FINANCE COSTS

	2022	2021
	HK$'000	*HK$'000*
Interest on:		
Loan from a director	**1,484**	1,548
Lease liability	**25**	116
	1,509	1,664

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2022	2021
	HK$'000	*HK$'000*
Cost of properties sold	**–**	5,628
Depreciation of property, plant and equipment	**261**	273
Depreciation of right-of-use asset	**1,419**	1,893
Bank interest income	**(601)**	(556)
Changes in fair value of investment properties	**(50,692)**	(33,638)

5. INCOME TAX EXPENSE

	2022 *HK$'000*	2021 *HK$'000*
Current – Mainland China		
Corporate income tax		
Charge for the year	**5,805**	8,188
Land appreciation tax ("LAT")		
Charge for the year	**–**	10,809
Deferred	**15,095**	9,131
Total tax charge for the year	**20,900**	28,128

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2021: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. The subsidiaries established in Mainland China are subject to income taxes at a tax rate of 25% (2021: 25%).

The LAT for the Group's subsidiary in Mainland China was levied at 60% on the appreciation of land value, being the proceeds of sale of properties less deductible expenditures including cost of land and all property expenditures.

6. FINAL DIVIDEND

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK$3,273,000 (2021: HK$6,811,000), and the weighted average number of ordinary shares of 713,767,205 (2021: 713,616,520) in issue during the year.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2022 in respect of a dilution as the impact of the share options did not have a dilutive effect on the basic earnings per share amount presented.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2021.

8. TRADE RECEIVABLES

An ageing analysis of the trade receivables at the end of the reporting period is as follows:

	2022		2021	
	HK$'000	***Percentage***	*HK$'000*	*Percentage*
Within 6 months	**12,334**	**100**	15,945	74
More than 6 months but within 1 year	**–**	**–**	5,666	26
	12,334	**100**	21,611	100

The Group generally grants a credit term of 3 months to 12 months to its customers.

The ageing of the Group's trade receivables is based on the date of recognition of revenue. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

9. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period is as follows:

	2022		2021	
	HK$'000	***Percentage***	*HK$'000*	*Percentage*
More than 1 year	**2,075**	**100**	2,121	100

The ageing of the Group's trade payables is based on the dates of the goods received or services rendered. The trade payables are non-interest-bearing.

10. COMPARATIVE AMOUNTS

The comparative basic and diluted earnings per share attributable to ordinary equity holders of the Company has been re-presented in Hong Kong cents to conform with the current year's presentation.

FINANCIAL REVIEW

The Group recorded a revenue of HK$30,283,000 (2021: HK$57,670,000) for the year ended 31 December 2022. Net profit attributable to ordinary equity holders of the Company for the year was HK$3,273,000 (2021: HK$6,811,000). The decrease of the Group's turnover during the year was as a result of no sales of properties took place in current year while sale of properties of HK$27,461,000 transacted in last year.

Adjusted EBITDA

The Adjusted EBITDA of the Group for the year ended 31 December 2022 was profit of HK$7,447,000 (2021: HK$29,301,000). Adjusted EBITDA refers to the earnings before interest, tax and depreciation and does not take into account the effect of changes of fair value of investment properties.

Net Profit

The profit of the Group before and after tax for the year ended 31 December 2022 were HK$54,950,000 (2021: HK$59,109,000) and HK$34,050,000 (2021: HK$30,981,000), respectively. The decrease of the Group's profit before tax during the year was attributable to (i) decrease in the Group's turnover during the year as a result of no property sales transactions was made in current year while sales of properties of HK$27,461,000 were recorded in last year and; (ii) a fair value gain of the Group's investment properties of HK$50,692,000 for current year as compared with a fair value gain of the Group's investment properties of HK$33,638,000 for last year.

Liquidity and Financial Resources

During the year, the Group's operations were financed mainly by cash flows generated from business operations and borrowings. The Group's net cash flows from operating activities during the year were HK$20,176,000 (2021: HK$22,442,000).

As at 31 December 2022, the Group had cash and bank balances of HK$84,874,000 (2021: HK$93,204,000).

As at 31 December 2022, the Group had outstanding borrowings of HK$72,297,000 (2021: HK$79,359,000) representing a loan from a director as compared with lease liability of HK$1,303,000 and a loan from a director in an amount of HK$78,056,000 as at 31 December 2021. The lease liability of HK$1,303,000 as at 31 December 2021 was payable within one year according to the lease terms and denominated in Hong Kong dollars. The Group's exposure to interest rate fluctuation was minimal in the past years.

The Group's gearing ratio was 0.02 as at 31 December 2022 (2021: 0.02), calculated based on the Group's lease liability and loan from a director in an aggregate amount of HK$72,297,000 (2021: HK$79,359,000) over total assets of HK$4,415,959,000 (2021: HK$4,727,091,000). The Group maintained a relatively low gearing ratio in the past years. The Group's financial resources are able to meet its capital expenditure and working capital requirements for the coming twelve months from the date of this announcement.

Grant of Share Options

It was announced on 2 December 2022 (the "Share Option Announcement") that the Company granted 60 million share options to 12 grantees at an exercise price of HK$0.09 per share pursuant to the terms of the Company's share option scheme adopted on 19 December 2012 (the "Share Option Scheme"). 55 million share options were exercised prior to 31 December 2022 raising a gross proceed of HK$4.95 million (before expenses) and 55 million new shares were issued and allotted to the option holders on 9 January 2023. Further details of the share option grant were disclosed in the Share Option Announcement.

The Share Option Scheme was lapsed on 19 December 2022 but 5,000,000 share options granted under the Share Option Scheme would remain exercisable pursuant to the terms of the said scheme.

FUND RAISING ACTIVITIES

On 15 April 2020, it was announced (the "New Issue Announcement") that the Company entered into a subscription agreement (the "Subscription Agreement") with Link Tide Investments Limited, a private company incorporated in the British Virgin Islands and an independent third party, in respect of subscription and issue of 108,000,000 new shares in the capital of the Company at an issue price of HK$0.15 per share pursuant to the Company's general mandate on 18 June 2019 (the "New Issue"). All conditions precedent as set out in the Subscription Agreement were satisfied and the New Issue was completed on 27 April 2020. Further details of the New Issue were disclosed in the New Issue Announcement.

The net proceeds raised from the New Issue applied up to 31 December 2022 are as follows:

Intended use of the net proceeds as stated in the New Issue Announcement			**Proceeds utilised as at 31 December 2022**	**Proceeds unutilised as at 31 December 2022**	
Category	**Net amount** *(HK$ in million)*	**Percentage**	**Net amount** *(HK$ in million)*	**Remaining amount** *(HK$ in million)*	**Expected schedule of use**
Redevelopment costs of redevelopment project in Guangzhou, Mainland China	12.0	74.5%	–	12.0	On or before 31 December 2023
General working capital	4.1	25.5%	4.1	–	–
Total	**16.1**	**100%**	**4.1**	**12.0**	

The Group held the unutilised net proceeds in short-term deposits with banks as at 31 December 2022.

BUSINESS REVIEW

The Company is an investment holding company. Its subsidiaries are principally engaged in property development, investment and management businesses in Mainland China and have two major property interests, one in Chongqing (重慶市) and the other one in Guangzhou (廣州市).

Guang Yu Square in Chongqing

The Group's property interest in Chongqing is situated at Chaotinmen, Yuzhong District, Chongqing (重慶市渝中區朝天門). Guang Yu Square is a 15-storey commercial building with a total gross floor area of about 49,400 square metres, out of which the Group owns portion of Basement, Levels 1 to 4, Levels 8 and 11 with total gross floor area of about 24,400 square metres. The property, which has been fully refurbished in 2016, is presently a multi-floor shopping mall focusing in wholesale and retailing of men's wear and footwear. There are about 50-70 shops per level with shop area ranging from 20–60 square metres per shop. Most shops are leased to unsolicited third parties for a term of about one year renewable automatically with prevailing market rental. The shopping mall (the floors owned by the Group) is almost fully occupied and shop turnover rate is maintained at a relatively low level. Given Chaotinmen has been one of the major clothing distribution points in Chongqing for nearby cities and the Three Gorges region (三峽地區) for decades, Guang Yu Square is one of the most popular men's wear and footwear wholesale points in the region.

Amid the COVID-19 pandemic remained under control in Chongqing at most of the times in 2022, the business operation of Guang Yu Square resumed usual and normal during the year except for temporary shutdown when outbreaks of COVID-19 driven by Omicron variant surged in late half of 2022. To relieve the impact of temporary shutdown, the operator increased marketing momentum by organising crazy sale and lucky draw events for its tenants and customers. Rental income hence was not materially affected during the year as leases for 2023 were committed in late December 2022.

The Redevelopment Project in Guangzhou

The Group's property interest in Guangzhou is situated at Yuexiu District, Guangzhou (廣州市越秀區). The development site, previously named as Metropolis Shoes City (廣州大都市鞋城) is located at the east of Jiefang Road South (解放南路), to the south of Daxin Road (大新路), to the north of Yede Road (一德路) and to the west of Xieen Lane (謝恩里) in Yuexiu District which is within walking distance of about 3 minutes to the Old Hall (舊館) of the Canton Fair (廣州交易會), which was once the only export window in Mainland China before its Reform and Open Door Policy (改革開放政策) implemented in 1978 and within walking distance of about 5 minutes to the riverbank of the Pearl River (珠江), the icon of Guangzhou.

The Metropolis Shoes City (before operation ceased in August 2019) was a 2-storey non-permanent building with gross floor area of about 14,700 square metres and about 500 shops. With a history of over one century for footwear wholesale business in the region, the Metropolis Shoes City was the most popular footwear boutique showcase and wholesale centre in Guangzhou.

The Metropolis Shoes City ceased operation in August 2019 for re-development purpose. The Yuexiu District People's Government (越秀區人民政府) (the "Yuexiu Government") expressed that they would use their best endeavors to support the Group's re-development plan.

As to-date, except for one block of building remained not yet surrendered (尚未完成拆遷) and a few shops next to the premise continued to operate business as usual, the Metropolis Shoes City was demolished and the development site was leased to a third party for licensed carpark operation.

Pending to the surrender of the last block of a 7-storey building being occupied by an individual owner (小業主), the re-development project is intended to be developed into a 22-storey versatile grade A commercial building complex with twin towers and 3-level of basement for wholesale and exhibition hall facilities, office and service apartment uses with ancillary facilities such as carpark and loading/unloading bays with total gross floor area of about 234,000 square metres. It is also planned that the basement of the new building complex will be linked via subway to two metro stations, namely Yide Lu Station (一德路站) and Haizhou Square Station (海珠廣場站).

In early 2021, the State Council re-launched new urban policy directive to encourage the re-mapping of commercial zone to residential zone in first-tier cities with an objective of decreasing the over-supply of commercial properties (due to the boom of e-commerce) as well as increasing the supply of residential properties in the market. The Group carried out preliminary feasibility study on this new policy and expected that the investment return of the new development project would be significantly improved if in case part of the re-development could be modified from service apartment to residential property. The Group was confident that the re-mapping policy would be on agenda soon once the consolidation of property development market nationwide was on track.

The property market crisis emerged in late 2021 blew up the property market boom nationwide and its impact remained unrelieved and unavoidably hit the property market sentiment in Guangzhou during the year. Nevertheless, GZ Zheng Da's re-development plan remained on track as it required very limited capital resources at its planning stage.

According to the latest construction schedule (assuming construction commences in the first quarter of 2024), it is expected that the development project will take about four years and be completed by two phases, the first of which will be completed in late 2026 and the second stage will be completed in first quarter of 2028. Subject to the grant of inspection and safety permits by the relevant regulatory authorities, it is expected that the new commercial complex will commence business and generate rental revenue to the Group at its earliest in early 2027.

The re-development project will be constructed with a budgeted cost of about RMB1,700 million (HK$1,921 million), of which the Group and the related parties will bear 25% and 75% of the total costs, respectively (assumed on the basis that the Group held 25% interest in the development project as to-date). It is intended that the construction costs will be financed by bank borrowings (with pledge of the Group's property assets), project financing, equity financing and new funds of potential investors. In certain circumstances the potential contractors and building materials suppliers will advance working capital to the re-development project, which is a common industry practice in Mainland China.

Notwithstanding the re-development project in Guangzhou ceased to contribute significant revenue to the Group in coming years, it is expected that it will continue to generate rental income from a few remaining units not yet demolished and temporarily carpark until the construction work commences.

The subject asset will remain as an investment property under Hong Kong Accounting Standard 40 – *Investment Property* and be measured at its fair value with changes in fair value recognised in the Group's consolidated financial statements for subsequent financial years. It is expected that the new commercial complex will be held for earning rentals and capital appreciation purposes upon completion.

Properties Held for Sale

The Group had a portfolio of about 190 residential units ranging from 20 square metres to 70 square metres each unit with total gross area of about 11,000 square metres. These residential units were constructed in late 1990s for the purpose of interim resettlement of occupiers who surrendered their units to GZ Zheng Da for demolition of the development site in Yuexiu District but remained vacant or available-for-sale as at to-date. The intended property sale campaign was halted during the year because of sudden outbreak of COVID-19 driven by Omicron variant surged in Guangzhou in the third quarter of 2022.

These properties represent five clusters of residential units situated at Baiyun District (白雲區) and Fangcun District (芳村區) in Guangzhou with convenient traffic access. Given all these units were completed for more than two decades, they are subject to refurbishment before launch for sale in the market. It is expected that these units will be well perceived by the first-time home buyers once they regain confidence in property market development.

MATERIAL ACQUISITION UPDATE

The Group was engaged in a material acquisition, details of which are disclosed in the sections headed "Material Acquisition Update" and "Material Acquisition" in the Company's annual report for the year ended 31 December 2021 (the "Annual Report 2021"). Below is the latest development of the Acquisition (as defined in the aforesaid sections) since 29 March 2022, the approval date of the Annual Report 2021.

In June 2022, the Group and the related vendors executed an extension agreement to explore opportunity to arrive any revised terms for the settlement of and the consideration for, and completion timetable in relation to the Acquisition of the remaining 75% indirect interest in HK Zheng Da not later than the revised long stop date which was further deferred to 30 June 2023. If a revised agreement is concluded, it is anticipated that the Acquisition will be financed by debt financing, equity financing, bank borrowings or a combination of the three kinds.

If in case the Acquisition lapses on 30 June 2023, no party shall be liable to each other. If this happens, the Group will no longer have control over HK Zheng Da and its subsidiary and there will be a major change of accounting treatment to the effect that HK Zheng Da will be regarded as an associated company with a 25% equity interest but not a 25%-owned subsidiary in the consolidated financial statements of the Company for the year ending 31 December 2023. Further announcement will be made once a concrete decision is made by the Group.

DISMISSAL ORDER APPEAL UPDATE

In May 2021, GZ Zheng Da received a written judgement (民事裁定書) from the Guangdong Provincial Guangzhou Municipal Intermediate People's Court (廣東省廣州市中級人民法院) (the "Guangzhou Court"). The written judgement granted an order to the effect that a compulsory liquidation petition (the "Purported Liquidation Petition") pleaded by 廣州市越秀房地產開發經營有限公司 ("越房私企"), a third party which was neither a shareholder nor creditor of GZ Zheng Da, was turned down (駁回強制清算申請裁定) (the "Dismissal Order (駁回裁定)") on the grounds that "the two equity partners of GZ Zheng Da had major disputes on company dissolution or not, major assets and equity interest matters while such disputes had remained not yet on trial or arbitrated for affirmation at the court (雙方股東對於廣州正大是否發生解散事由、公司主要財產以及公司股東股權尚有較大爭議，且爭議至今未經訴訟或者仲裁予以確認)". In the Dismissal Order, the Guangzhou Court ascertained that GZ Zheng Da remained "in operation (在業)" and that Zheng Da Development Company Limited ("HK Zheng Da"), another indirect subsidiary of the Group, had 100% equity interest in GZ Zheng Da.

The Dismissal Order was the first court paper in relation to the Purported Liquidation Petition that GZ Zheng Da had ever received from the Guangzhou Court, over 10 years from the alleged plead made by 越房私企 in 2009. The Company was pleased to acknowledge receipt of the Dismissal Order ruling that 越房私企 did not possess the prerequisites for pleading a liquidation petition against GZ Zheng Da.

The Company perceived that the Dismissal Order cast out the legal uncertainties of GZ Zheng Da which had hampered its operation for about a decade and would expedite the redevelopment plan of GZ Zheng Da.

越房私企 submitted an appeal to the Dismissal Order (the "Dismissed Order Appeal") in late May 2021 as permissible by law. The Dismissed Order Appeal was heard in January 2022 but ruling was not yet made.

Based on the grounds stated in the Dismissal Order and after taking competent PRC legal advice, the Company remained optimistic in obtaining a favourable judgement in the Dismissed Order Appeal.

OUTLOOK

Following the "Full Scale Resumption to Normal (全面復常)" policies implemented in Mainland China and Hong Kong in early March 2023, all restrictions from free cross border travelling between Mainland China and Hong Kong as well as travel aboard have been lifted. It appears that COVID-19 is no longer a public health threat and most business sectors and social activities resume normal gradually in Mainland China and Hong Kong. Latest economic indicators affirmed that the economy in both regions bounced back strongly with persistent momentum. The Directors are pleased to welcome this vibrant economic opportunity.

Following the reshuffle of the State Council, the new administration of Chinese Central Government is expected to make an all-out effort to achieve its economic growth target of "around 5 percent" for 2023 but its economy will continue to contend with a raft of hurdles and potential impediments to that goal. Disturbances stemming from a protracted Russia-Ukraine war, lingering tensions with Washington Administration and its allies, potential financial crisis in US and Europe subsequent to the collapse of Silicon Valley Bank and Credit Suisse, and record high inflation rates in Western nations are factors that will drag the economic growth of China this year. On the other hand, the global money market generally perceives that the US Federal Reserve's interest rate hike will reach its peak in the third quarter this year and this expectation may cool down the strong US dollar trend which may also stabilise Renminbi exchange rate.

Being embraced by the increasingly turbulent and chaotic external environment and combatting the above challenges, Li Qiang (李強), the new Chinese Prime Minister, expressed at the Two Sessions (兩會) recently that a substantial recovery would be the top priority on the economic agenda and further reassured entrepreneurs that the government would consistently support the private sector through "keep opening up (保持開放)". Prime Minister Li also indicated that the administration would adopt four strategies (組合拳), namely macro policies (宏觀政策), booming demand (擴大需求), modification and innovation (改革創新), and risk management (防範化解風險) to regulating the nationwide economic activities with cautious and prompt response to potential crisis. With these strategies adopted and modified from time to time, the Directors are cautiously optimistic to the stability and prosperity of China economy this year.

As the real estate sector has been reiterated as the "pillar of the national economy (國家經濟支柱)", it is perceived that favorable policies and relaxing guidelines will be continuously launched to ease the confidence crisis of nationwide property market. It is expected that the property development market in Mainland China will not prosper until and when the capital supply in this sector is refueled and it will take time for market recovery and confidence regain by investors and end-users. In the medium term, the property development market in Mainland China will be on fast track again once consolidation is achieved under the supervision of the Chinese Central Government.

The Key Speech (重要講話) presented by Xi Jinping (習近平), the newly re-elected Chinese President, at the Two Sessions recently emphasized that "Building strong nation with reliance on long term prosperity and stability of Hong Kong and Macau (推進強國建設離不開香港、澳門長期繁榮穩定)" and "Move forward "One Country Two Systems" implementation with firm trust (紮實推進"一國兩制"實踐)". The Directors fully support the Central Committee of Chinese Communist Party, under the leadership of Xi Jinping, to building a modernized strong nation with Chinese socialist character (建設具中國社會主義特色的現代化強國) as well as "The Hong Kong Administration to govern in accordance with the Basic Law" (全力支持香港特區政府依法施政).

Looking ahead, 2023 remains a tough year but the Directors are optimistic about the economic bounce back in Mainland China and Hong Kong in the second quarter of the year.

Meantime, the Group will proactively explore other income sources and new business projects in Guangzhou in order to compensate the revenue forgone due to the closure of the wholesale mall since 2019.

CODE ON CORPORATE GOVERNANCE PRACTICE

In the opinion of the Directors, the Company complied with the Code on Corporate Governance Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year, except for the following deviation:

Code Provision A.4.2

The second part of Code A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Pursuant to the bye-laws of the Company, the Managing Director of the Company was not subject to retirement by rotation. However, the Managing Director of the Company voluntarily retired by rotation every three years and offered himself for re-election at the Company's general meetings in the past years. The Directors considered that this practice was in line with the spirit of the relevant practice of the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company had adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by its directors. Having made specific enquiry to the Directors, the Company confirmed that the Directors had complied with required standard set out in the Model Code throughout the accounting period covered by the annual report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary results announcement have been agreed by the Company's auditor to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Company's auditor in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by the Company's auditor on the preliminary results announcement.

AUDIT COMMITTEE

The Annual Results had been reviewed by the Audit Committee of the Company.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The annual report of the Group for the year ended 31 December 2022 containing all information required by Appendix 16 of the Listing Rules will be sent to the shareholders of the Company as well as released on the web site of the Stock Exchange as soon as practicable.

By Order of the Board
Ho Kam Hung
Executive Director

Hong Kong, 30 March 2023

As at the date of this announcement, the board of directors of the Company comprises: (i) Ho Kam Hung as executive director; (ii) Young Kwok Sui as non-executive director; and (iii) Tam Kong, Lawrence, Wong Miu Ting, Ivy and Wong Kui Fai as independent non-executive directors.